

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2008

C O N T E N T S

| | <u>Page</u> |
|---|-------------|
| FINANCIAL STATEMENTS | |
| Independent auditor's report | 1 |
| Management's discussion and analysis | 3 |
| BASIC FINANCIAL STATEMENTS | |
| District-wide financial statements: | |
| Statement of net assets | 16 |
| Statement of activities | 17 |
| Fund financial statements: | |
| Governmental Funds: | |
| Balance sheet | 18 |
| Reconciliation of the governmental funds balance to governmental net assets | 19 |
| Statement of revenues, expenditures, and changes in fund balances | 20 |
| Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the statement of activities | 21 |
| Statement of net assets | |
| Fiduciary Funds - trust and agency | 22 |
| Notes to financial statements | 23 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Budgetary comparison schedule - general fund | 49 |

C O N T E N T S - Continued

| | <u>Page</u> |
|--|--------------------|
| OTHER SUPPLEMENTARY INFORMATION | |
| Combining balance sheet - nonmajor governmental funds | 50 |
| Combining statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds | 51 |
| Analysis of 2007 tax levies | 52 |
| Summary of delinquent taxes | 53 |



Independent Auditor's Report

To the Board of Education of the
Novi Community School District, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Novi Community School District, Michigan as of June 30, 2008 and for the year then ended, which collectively comprise the School District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Novi Community School District, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Novi Community School District, Michigan as of June 30, 2008, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 15 and page 49 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

DOEREN MAYHEW

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Novi Community School District, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 11, 2008 on our consideration of the Novi Community School District, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, reading "Doeren Mayhew". The signature is fluid and cursive, with the first name "Doeren" and last name "Mayhew" clearly distinguishable.

DOEREN MAYHEW

November 11, 2008
Troy, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

The Novi Community School District's (the District) financial year is from July 1st through June 30th. Each year the District's financial records are audited by a third party independent auditor and the results are published. The audit is performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* as issued by the Governmental Accounting Standards Board (GASB). These standards require the inclusion of meaningful and useful data which broaden the reader's understanding of the District.

District Characteristics

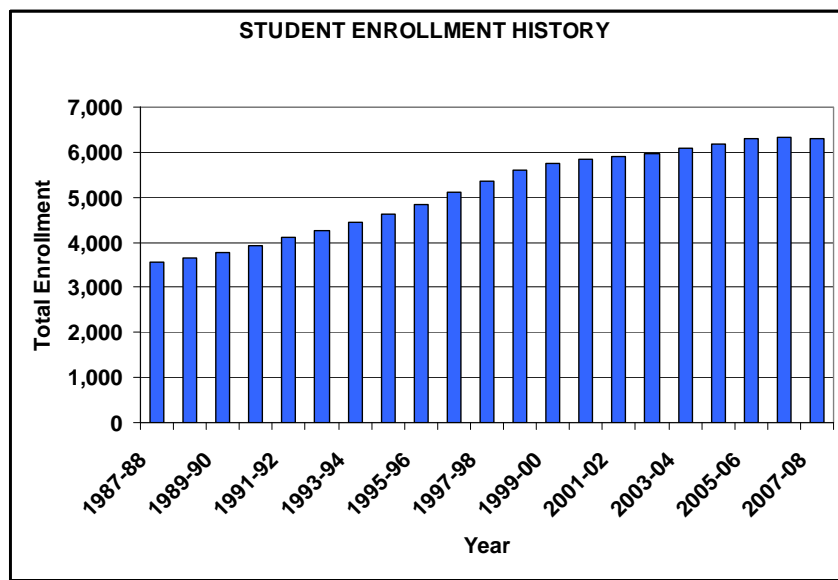
The Novi Community School District is an independent school district operating under the laws of the State of Michigan and is governed by an elected (at large) seven-member Board of Education. The District is located in southern Oakland County and encompasses 17.9 square miles with the vast majority of its area within the City of Novi except for a small parcel of land in the City of Wixom. The District has seen and continues to see growth and development of both its residential and non-residential properties.

The District has five (5) elementary schools, grades K-4; one (1) upper elementary school, grades 5-6; one (1) middle school, grades 7-8; and one (1) high school, grades 9-12. All eligible schools are accredited by the North Central Association of Colleges and Schools (NCA) and one school, Novi High School, has achieved recognition as a National Blue Ribbon School. The District also has a pre-school building, Board of Education office, a transportation facility, and a maintenance facility.

Enrollment

As shown in the following chart the District's student population grew from 3,303 in 1985-86 to 6,324 in 2007. In 2007-08, the District experienced a slight reduction of 14 students. The projection for 2008-09 shows a decrease of 54 students. Enrollment projections are completed annually. In each five year interval, the District convenes a citizen's committee and performs a comprehensive enrollment projection analysis. Information used to complete this analysis consists of housing data (both current and proposed), economic factors, land availability and zoning, and the assistance of Michigan State University's analysis of the District's births and cohort survival ratios. To date, the studies have proven to be accurate in planning for future facility needs.

Enrollment - Continued



Tax Structure

Per the Tax Code of the State of Michigan, public school districts levy taxes on two types of property: Homestead (residential) and Non-Homestead (non-residential). In addition, the State of Michigan levies a fixed 6.0000 mills against these properties. The tax levies are applied against the Taxable Value of properties or approximately 50% of the market value of the properties. A complete analysis of the tax levies can be found in the "Other Supplemental Information" portion of the audit.

In 2008, the District levies against these two property classifications can be summarized below:

| <u>Tax Description</u> | <u>Homestead</u> | <u>Non-Homestead</u> |
|------------------------|-----------------------|-----------------------|
| General Operating | 3.8649 | 18.9800 |
| Sinking Fund | .4932 | .4932 |
| All Debt Millage | <u>5.6600</u> | <u>5.6600</u> |
| TOTAL | <u>10.0181</u> | <u>25.1332</u> |

Curriculum

Novi Community School District has an extensive academic and extra-curricular program that provides comprehensive educational, athletic, and organizational opportunities to students from pre-school age through high school. An extensive curriculum, based predominantly on the Michigan Curriculum Framework and enriched with additional programs for all ages is ranked among one of the State's highest in terms of achievement levels and success rates (high school graduation, college entrance, above average scores on state and national tests).

Curriculum - Continued

No Child Left Behind (NCLB), a federal law enacted in 2001, issued directives to states to require Adequate Yearly Progress (AYP) for its districts and schools within them such that all students would meet 100% proficiency in English/language arts (reading and writing) and mathematics by 2014. States were required to establish a way to measure each district and school, and students within each school's demographic strands based on proficiency on the state's academic assessment (in Michigan, this assessment is the Michigan Educational Assessment Program, or MEAP). Michigan also established a report card system. The report cards for Novi Community Schools' reflect that all eight schools received A's. MEAP scores for Novi's schools remain within the top 3-5 districts in the county out of 28 school districts and always well above the state averages.

There are two important notes to add to NCLB and AYP. The first is that it is important that MEAP (a set of tests), and through its AYP, only measures a small part of the broad range of academic achievement students demonstrate. As a result, though our District scores are consistently very high, the District also feels compelled to advocate for a broader representation of what our students actually do. Hence, we continually showcase the superb achievements our students have contributed to our community and to their futures. All academics as well as the arts, physical fitness, etc. are described. We feel strongly that this broad representation of achievement captures the integrity of why we educate in the first place - to develop an informed citizen who participates in and supports a vibrant Democracy.

The second critical note to express here is the disregard that NCLB has on including in its reporting the educational innovations that communities, districts, and schools have implemented. These educational innovations comprehensively impact achievement through their focus on making smaller, more personally responsive learning environments for students. Examples include: schools within a school, teaming, multi-age learning, continuous progress, etc. Our District has embraced these innovations because we realize they are an investment in safety, achievement, joyfulness in learning, and an expression of our local voice in the greater conversation about the future of public schooling in the United States - an integrity we value.

There is an extensive Community Education program that features a full day and half day pre-school program, child care for students both before and after school and all summer, and programs for community residents and parents who are new to the District.

At the elementary levels, five (5) schools provide K-4 educational programming. There is one 5/6 elementary building and a 7/8 middle school, as well as a 9/12 comprehensive high school. The high school features a "four block schedule" and a new "Freshman Academic Seminar" to integrate entering students into a very large school by keeping 'big small' in the way students are handled. The high school curriculum also features an extensive Advanced Placement curriculum and special education programs and services.

Curriculum - Continued

Professional staff development is a priority in the District. Many factions of the staff (including support as well as instructional staff) are well versed in the theories of Choice Theory, and a climate of respect and a 'joy for learning' is conveyed from the Superintendent's office throughout the entire school community.

Financial Information

This section of the 2008 annual financial report presents our discussion and analysis of the District's financial performance during the year ended 2008. Please read this in conjunction with the District's actual financial statements which immediately follow this section.

This annual report consists of three (3) parts: management's discussion and analysis (this section), the three basic financial statements, and required supplementary information. In addition, there is a section which provides other supplementary information. The statements are organized so the reader can understand the Novi Community School District financially as a whole.

The first of the basic financial statements is the *District Wide Financial Statements* which provide information about the activities of the "whole" District, presenting both an aggregate view of the District's finances and long-term view of those finances.

The second of the basic financial statements are the *Fund Financial Statements* which indicate how governmental services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the District's operations in more detail than the District Wide Financials by providing information about the District's most significant funds, the General Fund and the 2007 Capital Projects Fund. All other funds are presented in one column and listed as "nonmajor" funds which include: 2001 Capital Projects Fund, 2001 Sinking Fund, 1993 Debt Fund, 1997 Debt (Refinancing) Fund, 1998 Debt Fund, 2001 Debt Fund, 2002 Debt (Refinancing) Fund, 2005 Debt (Refinancing) Fund, 2007 Debt (Refinancing) Fund, 2007 Debt Fund, Food Service Fund, and Athletic Fund.

The last basic financial statement is the *Fiduciary Fund Statements*. These are funds with which the District act as the trustee, or fiduciary, for the assets that belong to others. The funds in this category are comprised of all of the schools' student activity funds. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance operations.

Reporting the School District as a Whole - District-wide Financial Statements

There are two (2) types of statements under this category: the statement of net assets and the statement of activities. These statements report information about the District as a whole using accounting methods normally used in private industry. All of the current year's revenues and expenses are accounted for in these statements regardless from which fund or when they were collected or paid.

The statements show the difference between all of the District's assets and liabilities, thereby indicating the District's net asset worth, and is one way to measure the District's financial health or complete financial position. Over time, increases or decreases in the District's net assets, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, it must be remembered it is not the function of a public school system to generate profits; instead, a district's worth is measured by its quality of instruction and the efficiency and effectiveness of its delivery.

The statement of net assets and statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food service. Property taxes, state aid, and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

As heretofore mentioned, the District's fund financial statements provide detailed information about its most significant funds. Within these governmental funds all of the District's services are reported. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for future spending. They are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. These statements provide a detailed short-term view of the District's operations and help to determine whether or not there may be monies available in the near future to finance the District's programs.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

All of the District's fiduciary activities are reported in separate statements of fiduciary net assets. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the District as a Whole

The "Statement of Net Assets" provides the perspective of the District as a whole. The table below provides a summary of the net assets as of June 30, 2008:

| Table I | | |
|--|-----------------------------|-----------------------------|
| Novi Community School District | | |
| Net Assets - Governmental Activities | | |
| As of June 30, 2008 and 2007 | | |
| | <u>2008</u> | <u>2007</u> |
| Assets | | |
| Current and Other Assets | \$ 48,478,387 | \$ 47,612,617 |
| Capital Assets | <u>142,460,061</u> | <u>140,495,781</u> |
| Total Assets | 190,938,448 | 188,108,398 |
| Liabilities | | |
| Current Liabilities | 19,904,182 | 16,209,883 |
| Long-term Liabilities | <u>132,024,193</u> | <u>139,984,488</u> |
| Total Liabilities | 151,928,375 | 156,194,371 |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 2,555,709 | (6,733,066) |
| Restricted | 24,698,522 | 29,447,680 |
| Unrestricted | <u>11,755,842</u> | <u>9,199,413</u> |
| Total Net Assets | <u>\$ 39,010,073</u> | <u>\$ 31,914,027</u> |

The District's net assets were \$39,010,073 at June 30, 2008. Capital assets, net of related debt, totaled \$2,555,709. This compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. The majority of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$24,698,522 are reported separately and include those funds deposited in the 2007 Capital Projects Fund which are legally obligated to pay for the projects, as well as equity from the debt funds which are legally obligated for debt payments only and not for the day-to-day operations of the District. The remaining amount of net assets, \$11,755,842, was unrestricted. The \$11,755,842 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net asset balance is used for working capital and cash flow needs as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year-to-year.

Financial Analysis of the District as a Whole - Continued

The results of this year's operations as a whole are reported in the "Statement of Activities" (Table II, below). This table illustrates the changes in net assets for fiscal years 2008 and 2007.

| Table II | | |
|---|----------------------------|--------------------------|
| Novi Community School District | | |
| Change in Net Assets | | |
| For the Years Ended June 30, 2008 and 2007 | | |
| | <u>2008</u> | <u>2007</u> |
| Revenues | | |
| Program Revenues | | |
| Charges for services | \$ 4,551,748 | \$ 4,456,482 |
| Operating grants and contributions | 1,450,045 | 1,502,754 |
| General Revenues | | |
| Property taxes | 39,803,163 | 39,357,167 |
| State aid | 36,956,531 | 36,977,868 |
| Other | <u>7,950,599</u> | <u>6,014,892</u> |
| Total Revenues | 90,712,086 | 88,309,163 |
| Expenses | | |
| Instruction | 45,555,721 | 46,653,519 |
| Support services | 24,292,433 | 26,034,147 |
| Community services | 2,198,486 | 2,329,529 |
| Food services | 2,623,615 | 2,549,359 |
| Athletics | 756,536 | 869,647 |
| Principal | 240,848 | 3,061,652 |
| Interest on long-term debt | 7,621,846 | 5,672,832 |
| Buildings and additions | 279,603 | 294,573 |
| Other | <u>46,952</u> | <u>1,588</u> |
| Total Expenses | <u>83,616,040</u> | <u>87,466,846</u> |
| Increase in Net Assets | <u>\$ 7,096,046</u> | <u>\$ 842,317</u> |

As reported in the statement of activities, the revenue for all *governmental* activities this year was \$90,712,086. Certain activities were partially funded from those who benefited from the programs, such as food service, athletics, and community service (\$4,551,748); or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,450,045). The remaining "public benefit" portion of governmental activities was funded by the \$39,803,163 in property taxes, \$36,956,531 in State aid, and with other revenues (\$7,950,599) such as interest, transfers from the Oakland Intermediate School District, and general entitlements. The Novi Community School District experienced an increase in net assets of \$7,096,046.

Financial Analysis of the District as a Whole - Continued

As discussed above, the net cost shows the financial burden that was placed on the State and the District's taxpayers by each of these functions. Since property taxes for operations and State aid constitute the vast majority of the District's operating revenue, the Board of Education and the Administration must annually evaluate the needs of the District and balance those needs with the availability of these two revenue sources.

The School District's Funds

The financial performance of the Novi Community School District as a whole is also reflected in its governmental funds. Looking at the individual funds helps the reader consider whether the District is being held accountable for the resources taxpayers and others provide to it and may give more insight into the District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of \$37,341,707, a decrease of \$2,122,480 from the previous year. These changes are summarized below:

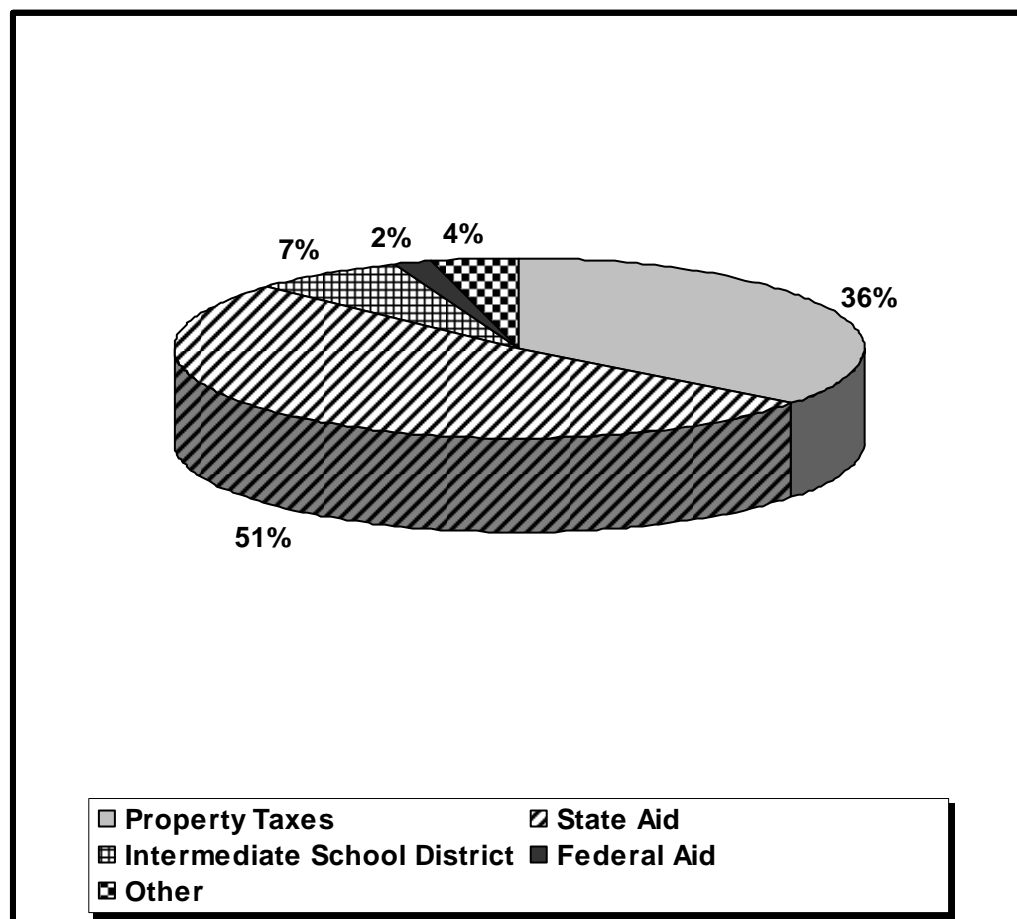
| | <u>General Fund</u> | <u>2007 Capital Project Fund</u> | <u>Other Nonmajor Govern- mental Funds</u> | <u>Total</u> |
|-------------------------|--------------------------------|---|---|----------------------|
| Beginning fund balances | \$ 9,785,421 | \$ 26,263,620 | \$ 3,415,146 | \$ 39,464,187 |
| Increase (decrease) | <u>2,935,873</u> | <u>(4,082,743)</u> | <u>(975,610)</u> | <u>(2,122,480)</u> |
| Ending fund balances | <u>\$ 12,721,294</u> | <u>\$ 22,180,877</u> | <u>\$ 2,439,536</u> | <u>\$ 37,341,707</u> |

The reason for the net decrease in equity is due primarily to expending of funds from the 2007 Capital Projects Fund, offset by reduction in General Fund expenses.

General Fund

The General Fund is the primary operating fund of the District, and provides all the educational services to our students. Revenues totaled \$71,822,553 and expenses totaled \$68,598,431 and a net increase in the fund balance of \$2,935,873. As a result of this net increase, the fund's equity increased from \$9,785,421 in 2006-07 to the current balance of \$12,721,294. This balance is available to fund costs related to allowable school operating expense.

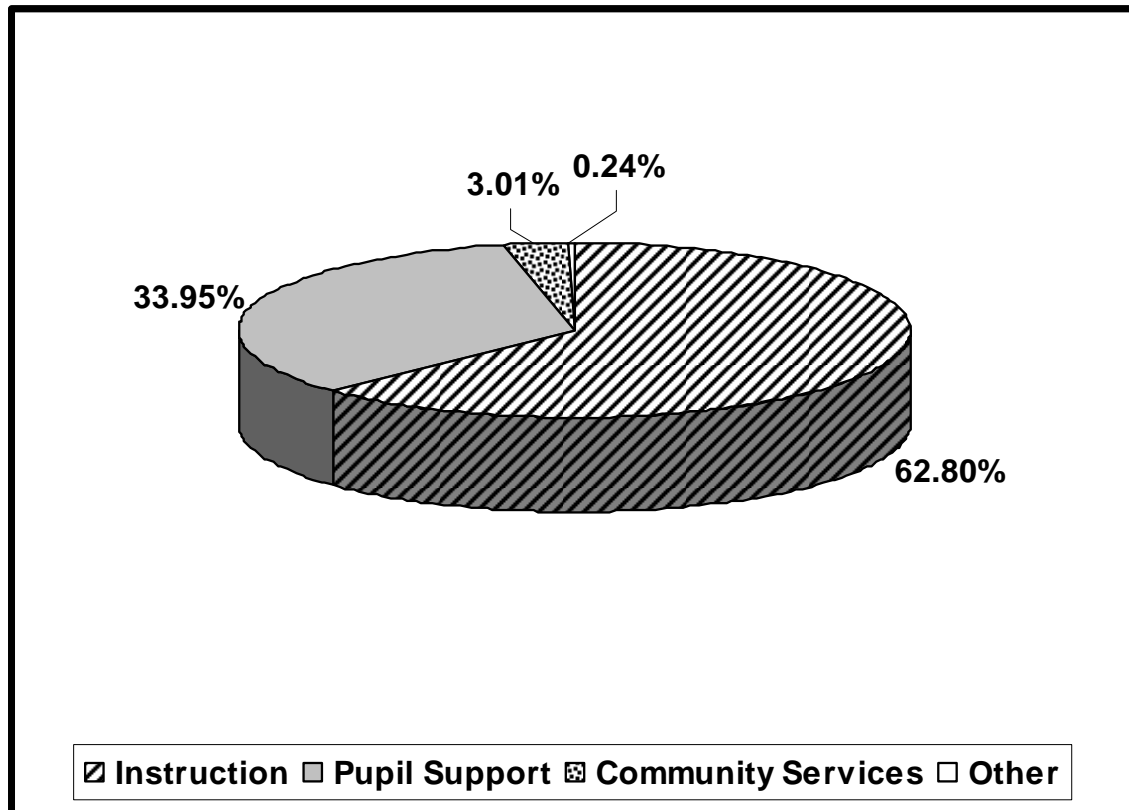
An analysis of the General Fund's revenues reveals that the District is dependant upon the State for the majority of its income. A listing of the revenue sources and their respective percentage to total income is shown on the chart below:



The General Fund expenses include those that are necessary to run the operations of the District. Basically, these expenses are categorized into four main areas: instructional services, support services, community services, and other. *Instructional services* are those that are directly related to the teacher in the classroom. *Support services* include pupil support services and operational expenses. Pupil support services include those things that "support" the student body, classroom instruction and student achievement, such as media, counseling, testing, psychological, and social work services. Operational expenses include such expenses as utilities, insurances, custodial, transportation, and administrative. *Community services* are those expenses related to community education including community academic and recreational classes as well as early childhood programs. *Other services* include debt payments and inter-fund and inter-school district transfers.

General Fund - Continued

The chart below breaks down the General Fund's expenses in broad categories and indicates their respective percentages.



2007 Capital Projects Fund

This fund is used to pay for major construction projects within the District as indicated in a bond proposition that was passed by the voters on May 8, 2007. The bond issue generated proceeds of \$26,436,689. The bond proposition was passed for the purpose of erecting, furnishing and equipping additions to and remodeling, refurnishing and re-equipping school district buildings; acquiring and installing educational technology improvements; acquiring and installing building security systems; and developing and improving playground sites. Work is underway on all of the above projects, but none is yet completed. This fund's equity is \$22,180,877 as of June 30, 2008.

Other Nonmajor Funds

The nonmajor funds consist of the 2001 Capital Projects Fund, Food Service Fund, Athletic Fund, Debt Funds, and the Sinking Fund. The 2001 Capital Projects Fund was fully expended this year, and there is no year-end fund equity. The Food Service Fund had a decrease in its equity amounting to \$110,196. This is due primarily to the transfer of \$170,000 of fund equity to the General Fund, a practice that will occur each year until the fund equity is drawn down to a five (5%) percent balance. The remaining 2008 equity of \$575,158 leaves the fund financially sound. The Athletic Fund had an operating loss of \$458,249 which is offset by a transfer from the General Fund. This is a common occurrence in Michigan school districts and, as such, is normally budgeted in the General Fund. The eight Debt Funds (1993 Debt Fund, 1997 Debt Fund, 1998 Debt Fund, 2001 Debt Fund, 2002 Debt Fund, 2005 Debt Fund, 2007 Debt Fund-Refunding, and the 2007 Debt Fund) have a combined equity of \$677,102 which is available for future debt obligations. This is a decrease of \$1,489,077 from the 2007 equity position. Debt millage rates are determined annually to ensure that the District accumulates sufficient resources to pay annual bond issue related debt service. The Sinking Fund had an increase in its equity position by \$635,697 to cause the 2008 equity to be \$1,187,276.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and disbursements. In June of each year the original budget is adopted. This is normally based on estimates since the student count, state aid, and, oftentimes, salaries are unknown. In winter the budget is then amended to reflect actual data available. The final amendment to the budget is then adopted near the end of the fiscal year. A schedule showing the District's original and final budget amounts compared with actual amounts is provided in the required supplementary information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

By the end of 2008, the District had invested \$142,460,061, net of depreciation, in a broad range of capital assets, including land, school buildings, athletic facilities, technology and other equipment. Table III summarizes these assets (more detailed information is found in Note 5).

| Table III | |
|---------------------------------------|-----------------------------|
| Novi Community School District | |
| Capital Assets | |
| As of June 30, 2008 | |
| <u>Item</u> | <u>Amount</u> |
| Land | \$ 9,607,341 |
| Construction-in-Progress | 5,553,652 |
| Buildings | 81,261,354 |
| Building Improvements | 34,657,471 |
| Grounds Improvements | 6,935,141 |
| Vehicles, Equipment, and Other | <u>4,445,102</u> |
| Total capital assets | <u>\$142,460,061</u> |

Debt

At the end of this fiscal year, the District had \$136,205,000 in bonds outstanding versus \$143,164,586 in the previous year. These bonds consisted of the following:

| <u>Bond Issue</u> | <u>Bonds Outstanding</u> |
|--------------------------------|---------------------------------|
| 2001 Bond Issue | \$ 12,150,000 |
| 2002 Bond Issue | 22,470,000 |
| 2005 Bond Issue | 10,850,000 |
| 2007 Bond Issue | 64,360,000 |
| 2007 Bond Issue | <u>26,375,000</u> |
| Total bonds outstanding | <u>\$ 136,205,000</u> |

The State limits the amount of bonded indebtedness that school districts can issue to 15% of the assessed value of all its taxable property. This amount is far below the \$395,187,773 statutorily imposed limit.

Other obligations include accrued leases on copiers, bus notes, sick leave, and severance pay. These are detailed in Note 9.

Factors Bearing on the District's Future

The Board of Education and the administration consider many factors when developing the District's budget. As mentioned earlier, the District is very dependant upon the State for its funding. Since 1995, school districts cannot levy any additional property taxes for general operating purposes; thus, the dependency upon State resources is magnified that much more. The majority of State aid that a district receives is calculated on a per pupil amount multiplied by a district's total enrollment (converted to full time equivalencies). Annually, the State legislature determines this per pupil amount. From 1995 to 2002 this amount has been helpful toward assisting the District to meet its financial obligations. In both the 2003-04 and 2004-05 fiscal years the State had not increased the per pupil allocation. This was primarily due to the weak condition of the State's economy. In 2005-06, the State increased the allocation by \$175 per child and in 2006-07 by \$210 per child. Despite the precarious Michigan economy, the State has granted an increase of \$48 per child in 2007-08. Predictions for 2008-09 and following years are nebulous at best. However, it appears as though the State recognizes the importance of education and its impact on "job creation".

The Novi Community School District is concerned about the future lack of State funding. The District's equity is sufficient to meet current estimated reductions, but it cannot continue to meet sustained losses over a period of time. In spite of this environment, the District will strive to maintain its long-standing commitment to academic excellence and educational opportunities for students within any financial framework.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Novi Community School District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Novi Community School District, 25345 Taft Road, Novi, Michigan 48374.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

| | <u>Governmental Activities</u> |
|--|---|
| Assets | |
| Cash and cash equivalents (note 3) | \$ 15,112,908 |
| Investments (note 3) | 25,244,859 |
| Property taxes receivable - net of allowance | 147,771 |
| Other receivables | |
| State aid | 6,539,601 |
| Federal aid | 81,551 |
| Other | 273,744 |
| Inventories and prepaid expenses | 1,077,953 |
| Capital assets, net of accumulated depreciation (note 5) | <u>142,460,061</u> |
| Total assets | 190,938,448 |
| Liabilities | |
| Accounts payable | 5,629,220 |
| Accrued payroll and benefits | 4,912,600 |
| Deferred revenue | 3,810 |
| Interest payable | 1,011,578 |
| Long-term liabilities (note 9) | |
| Long-term liabilities due within one year | 8,346,974 |
| Debt, net of premiums and discounts | 128,889,945 |
| Deferred bond premiums | 2,938,230 |
| Postemployment severance and employee benefits payable | <u>196,018</u> |
| Total liabilities | 151,928,375 |
| Net Assets | |
| Invested in capital assets, net of related debt | 2,555,709 |
| Restricted for | |
| Specific purpose | 653,267 |
| Debt service | 677,102 |
| Capital assets | 23,368,153 |
| Unrestricted | <u>11,755,842</u> |
| Total net assets | <u><u>\$ 39,010,073</u></u> |

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| | | Program Revenues | | Governmental Activities |
|---|----------------------|---------------------------------|---|---|
| | | Charges for Services | Operating Grants and Contributions | Net (Expenses) Revenues and Change in Net Assets |
| Functions/Programs | Expenses | | | |
| Governmental activities | | | | |
| Instruction | \$ 45,555,721 | \$ - | \$ 944,097 | \$ (44,611,624) |
| Support services | 24,292,433 | 15,800 | 286,790 | (23,989,843) |
| Food services | 2,623,615 | 2,211,543 | 219,158 | (192,914) |
| Athletic program | 756,536 | 252,933 | - | (503,603) |
| Community services | 2,198,486 | 2,071,472 | - | (127,014) |
| Principal | 240,848 | - | - | (240,848) |
| Interest on long-term debt | 7,621,846 | - | - | (7,621,846) |
| Buildings and additions | 279,603 | - | - | (279,603) |
| Other | 46,952 | - | - | (46,952) |
| | | | | |
| Total governmental activities | <u>\$ 83,616,040</u> | <u>\$ 4,551,748</u> | <u>\$ 1,450,045</u> | (77,614,247) |
| General revenues | | | | |
| Taxes | | | | |
| Property taxes, levied for general purpose | | | | 25,517,339 |
| Property taxes, levied for debt service | | | | 13,125,601 |
| Property taxes, levied for capital assets | | | | 1,160,223 |
| State aid | | | | |
| Formula grants - unrestricted | | | | 33,619,052 |
| Restricted | | | | 3,337,479 |
| Intermediate school district | | | | 5,205,487 |
| Investment earnings | | | | 2,185,248 |
| Miscellaneous | | | | 597,866 |
| Special item - loss on disposal of capital assets | | | | (38,002) |
| | | | | |
| Total general revenues | | | | <u>84,710,293</u> |
| | | | | |
| Change in Net Assets | | | | 7,096,046 |
| | | | | |
| Net Assets - July 1, 2007 | | | | <u>31,914,027</u> |
| | | | | |
| Net Assets - June 30, 2008 | | | | <u>\$ 39,010,073</u> |

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

ASSETS

| | General Fund | 2007 Capital Projects Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|-------------------------|---|--|---|
| Cash and cash equivalents (note 3) | \$ 12,556,059 | \$ 50,278 | \$ 2,506,571 | \$ 15,112,908 |
| Investments (note 3) | - | 25,244,859 | - | 25,244,859 |
| Property taxes receivable - net of allowances | 94,985 | - | 52,786 | 147,771 |
| Other receivables | | | | |
| State aid | 6,524,401 | - | 15,200 | 6,539,601 |
| Federal aid | 53,378 | - | 28,173 | 81,551 |
| Other | 79,453 | 192,991 | 1,300 | 273,744 |
| Due from other funds (note 6) | 60,592 | - | 7,330 | 67,922 |
| Inventories | 141,609 | - | 34,078 | 175,687 |
| Prepaid expenses | 225,089 | - | 5,067 | 230,156 |
| | <u>\$ 19,735,566</u> | <u>\$ 25,488,128</u> | <u>\$ 2,650,505</u> | <u>\$ 47,874,199</u> |
| Total assets | <u>\$ 19,735,566</u> | <u>\$ 25,488,128</u> | <u>\$ 2,650,505</u> | <u>\$ 47,874,199</u> |

LIABILITIES AND FUND BALANCES

Liabilities

| | | | | |
|--|------------------|------------------|----------------|-------------------|
| Accounts payable | \$ 2,005,747 | \$ 3,307,251 | \$ 21,292 | \$ 5,334,290 |
| Accrued payroll and benefits | 4,900,184 | - | 12,416 | 4,912,600 |
| Due to other funds (note 6) | - | - | 67,922 | 67,922 |
| Deferred property tax revenue (note 4) | 108,341 | - | 109,339 | 217,680 |
| | <u>7,014,272</u> | <u>3,307,251</u> | <u>210,969</u> | <u>10,532,492</u> |
| Total liabilities | 7,014,272 | 3,307,251 | 210,969 | 10,532,492 |

Fund Balances

| | | | | |
|--|----------------------|----------------------|---------------------|----------------------|
| Reserved for | | | | |
| Inventories | 141,609 | - | 34,078 | 175,687 |
| Prepaid expenses | 225,089 | - | 5,067 | 230,156 |
| Encumbrances | 455,244 | - | - | 455,244 |
| Unreserved | | | | |
| Designated | 307,905 | - | - | 307,905 |
| Designated for debt service | - | - | 677,102 | 677,102 |
| Designated for capital projects | - | 22,180,877 | 1,187,276 | 23,368,153 |
| Undesignated | 11,591,447 | - | 536,013 | 12,127,460 |
| | <u>12,721,294</u> | <u>22,180,877</u> | <u>2,439,536</u> | <u>37,341,707</u> |
| Total fund balances | 12,721,294 | 22,180,877 | 2,439,536 | 37,341,707 |
| Total liabilities and fund balances | <u>\$ 19,735,566</u> | <u>\$ 25,488,128</u> | <u>\$ 2,650,505</u> | <u>\$ 47,874,199</u> |

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO GOVERNMENTAL NET ASSETS**

JUNE 30, 2008

| | |
|--|---------------|
| Total fund balances - governmental funds | \$ 37,341,707 |
|--|---------------|

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, not reported as assets in governmental funds:

| | |
|--------------------------|--------------|
| Cost of capital assets | 184,621,102 |
| Accumulated depreciation | (42,161,041) |

| | |
|--|---------|
| Deferred bond issue costs recorded as an asset in the governmental activities - net of amortization | 672,110 |
|--|---------|

| | |
|---|---------|
| Property taxes and other miscellaneous receivables will be collected this year but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds | 213,870 |
|---|---------|

Long-term liabilities are not due and payable in the current period and,
therefore, are not reported as liabilities in the funds:

| | |
|------------------------------------|---------------|
| Bonds payable | (136,205,000) |
| Deferred bond premiums | (3,162,047) |
| Bus loans payable | (390,000) |
| Capital leases payable | (371,123) |
| Capital project retainages payable | (294,930) |
| Compensated absences | (197,997) |
| Severance packages payable | (45,000) |

| | |
|--|--------------------|
| Accrued interest payable is not included as a liability in governmental activities | <u>(1,011,578)</u> |
|--|--------------------|

| | |
|--|-----------------------------|
| Total net assets - governmental activities | <u><u>\$ 39,010,073</u></u> |
|--|-----------------------------|

See accompanying notes to financial statements

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

| | General Fund | 2007 Capital Projects Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--|----------------------|----------------------------------|--|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 25,582,880 | \$ - | \$ 14,312,907 | \$ 39,895,787 |
| Interest/earnings on investments | 464,086 | 1,394,949 | 326,213 | 2,185,248 |
| Fees and charges | 2,465,105 | - | 2,462,277 | 4,927,382 |
| State aid | 36,874,108 | - | 82,423 | 36,956,531 |
| Federal aid | 1,230,887 | - | 219,158 | 1,450,045 |
| Incoming transfers - ISD | 5,205,487 | - | - | 5,205,487 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 71,822,553 | 1,394,949 | 17,402,978 | 90,620,480 |
| Expenditures | | | | |
| Current | | | | |
| Instruction and instructional - related services | 43,078,587 | - | - | 43,078,587 |
| Support services | 23,286,467 | - | - | 23,286,467 |
| Community services | 2,065,802 | - | - | 2,065,802 |
| Food services | - | - | 2,490,931 | 2,490,931 |
| Athletics | - | - | 712,308 | 712,308 |
| Debt service | | | | |
| Principal | - | - | 6,959,586 | 6,959,586 |
| Interest | - | - | 7,932,356 | 7,932,356 |
| Buildings and additions | - | 5,470,152 | 569,402 | 6,039,554 |
| Other | 167,575 | 7,540 | 2,254 | 177,369 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures | 68,598,431 | 5,477,692 | 18,666,837 | 92,742,960 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Excess (Deficiency) of Revenues Over Expenditures | 3,224,122 | (4,082,743) | (1,263,859) | (2,122,480) |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in/(out) (note 6) | (288,249) | - | 288,249 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net Change in Fund Balances | 2,935,873 | (4,082,743) | (975,610) | (2,122,480) |
| Fund Balances - July 1, 2007 | 9,785,421 | 26,263,620 | 3,415,146 | 39,464,187 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Fund Balances - June 30, 2008 | <u>\$ 12,721,294</u> | <u>\$ 22,180,877</u> | <u>\$ 2,439,536</u> | <u>\$ 37,341,707</u> |

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

| | |
|--|---------------------|
| Total net change in fund balances - governmental funds | \$ (2,122,480) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Depreciation expense | (4,422,798) |
| Capital outlay subject to capitalization | 6,130,150 |
| The net effect of other transactions involving capital assets that decreased net assets: | |
| Proceeds from capital leases on copiers | (370,199) |
| Loss on disposal of capital assets | (38,002) |
| Because some property taxes and other miscellaneous revenues will not be collected for several months after the School District's fiscal year ends, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities | |
| | (84,759) |
| Some expenses are recorded in the statement of activities when incurred; they are not reported in governmental funds until paid: | |
| Accrued interest | 310,510 |
| Compensated absences | (5,097) |
| Repayment of principal and issuance costs are an expenditure in the governmental funds but not in the statement of activities (where it reduces long-term debt): | |
| Debt service principal | 6,959,586 |
| Installment loans on buses | 50,000 |
| Capital lease expenditures | 246,926 |
| Decreases in severance liabilities are reported as expenditures when financial resources are used in the governmental funds | |
| | 265,000 |
| Amortization of bond premiums in the statement of activities | |
| | 214,365 |
| Amortization of bond issuance costs in the statement of activities | |
| | (37,156) |
| Change in net assets of governmental activities | <u>\$ 7,096,046</u> |

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**STATEMENT OF NET ASSETS
FIDUCIARY FUNDS - TRUST AND AGENCY
JUNE 30, 2008**

Assets

| | |
|---------------------------|------------|
| Cash and cash equivalents | \$ 993,885 |
|---------------------------|------------|

Liabilities

| | |
|-----------------------|----------------|
| Due to student groups | <u>993,885</u> |
|-----------------------|----------------|

Net Assets

| | |
|---------------------------------|--------------------|
| Restricted for specific purpose | <u><u>\$ -</u></u> |
|---------------------------------|--------------------|

See accompanying notes to financial statements

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1 - Significant Accounting Policies

The accounting policies of the Novi Community School District, Michigan, (the School District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to government units. The following is a summary of the more significant policies used by the School District:

A. Reporting Entity

The School District is governed by an elected member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on application of the criteria, the entity does not contain component units.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - Significant Accounting Policies - Continued

B. District-wide and Fund Financial Statements - Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of interfund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicant for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Fund-based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are custodial in nature (assets equal liabilities) and do not report the measurement of results of operations.

The School District reports the following major governmental funds:

The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - Significant Accounting Policies - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

Fund-based Statements - Continued

The School District's only Fiduciary Fund is the Trust Fund, which is a nonexpendable trust fund used to account for the cash receipts and disbursements of the various student activity clubs of the School District.

Additionally, the School District reports the following nonmajor governmental fund types:

The Capital Projects Funds are used to record bond proceeds and other revenue and the disbursement of money specifically designated for building construction and renovation.

The School District maintains six nonmajor governmental Debt Service Funds, which are used to account for property tax and other revenue legally restricted for payment of long-term debt.

The School District maintains two nonmajor governmental Special Revenue Funds, which account for the School District's food service and athletic activities.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and various Debt Service Funds is allocated to each fund using a weighted average of balance for the principal invested.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds".

All property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year at which time penalties and interest are assessed and the total obligation is added to county tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School District also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of property taxes and fees for services received prior to meeting spending restrictions or providing the related services.

Restricted Assets

The unspent bond proceeds of the Capital Projects Fund require amounts to be set aside for construction and capital asset acquisition. The property taxes levied in the Debt Service Fund are required to be set aside for future principal and interest payments on bonded debt. These amounts have been classified as restricted assets.

Capital Assets

Capital assets, which include land, buildings, improvements other than buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the School District as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have any infrastructure-type assets.

Buildings, improvements other than buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------------------|---------------|
| Buildings | 20 - 50 years |
| Improvements other than buildings | 15 - 30 years |
| Equipment | 5 - 20 years |
| Vehicles | 5 - 10 years |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 1 - Significant Accounting Policies - Continued

D. Assets, Liabilities, and Net Assets or Equity - Continued

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as bond issuance costs, during the current period.

Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data

Comparative data is not included in the School District's financial statements.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for all governmental funds. All annual appropriations lapse at the fiscal year end. The budget document presents information by the general and major Special Revenue Fund by function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the functional level. State law requires the School District to have its budget in place by July 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The School District increased/decreased budgeted amounts during the year in response to changes in anticipated spending for salaries, benefits, and other expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year-end. The commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Note 3 - Deposits and Investments

The School District's deposits and investments at June 30, 2008, are composed of the following:

| | <u>Cash and Cash Equivalents</u> |
|--|---|
| Demand deposits and certificates of deposit | \$ 9,781,806 |
| Investments in Michigan School District - Liquid Asset Fund (CADRE) | 5,327,398 |
| Petty cash and cash on hand | <u>3,704</u> |
| Total | <u>\$ 15,112,908</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 3 - Deposits and Investments - Continued

Deposits

At June 30, 2008, the carrying amount of cash and cash equivalents was \$16,106,793, and the bank balance was \$17,506,658. Of that amount, \$700,000 was covered by Federal Depository Insurance and \$16,806,658 was uninsured and uncollateralized.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The School District is authorized by Michigan Public Act 132 of 1986 to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Custodial Credit Risk of Investments

Custodial credit risk is that risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have a policy regarding credit risk. At June 30, 2008, the School District does not have investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District does not have a policy restricting investment maturities. The School District minimizes interest rate risk by requiring the structuring of the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 3 - Deposits and Investments - Continued

Credit Risk

State law limits investments in commercial paper to the top two rating issued by nationally recognized statistical rating organizations. The School District does not have a policy that addresses credit risk.

At June 30, 2008, the School District held investments in money market mutual funds, and U.S. Government and Agency bonds with a Standard & Poor rating of AAA. The description, fair value, and maturity range of investments held at June 30, 2008 are as follows:

| <u>Name of Investment/Description</u> | <u>Fair Value</u> | <u>Maturity</u> |
|---------------------------------------|----------------------|--------------------|
| Money Market Mutual Funds | \$ 11,794,739 | N/A |
| U.S. Treasury Notes | 4,703,267 | 8/31/08 - 9/30/11 |
| U.S. Agency Bonds | <u>8,746,853</u> | 9/15/08 - 10/15/11 |
| Total | <u>\$ 25,244,859</u> | |

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law prohibits investments in foreign currency.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of property taxes and fees for services received prior to meeting spending restrictions or providing the related services.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 5 - Capital Assets

Capital assets activity for the School District's governmental activities was as follows:

| | Balance July 1, 2007 | Additions | Reductions/ Disposals | Balance June 30, 2008 |
|---|-------------------------------------|---------------------|----------------------------------|--------------------------------------|
| Assets not being depreciated: | | | | |
| Land | \$ 9,607,341 | \$ - | \$ - | \$ 9,607,341 |
| Construction-in-progress | 138,852 | 5,507,143 | (92,343) | 5,553,652 |
| Assets being depreciated: | | | | |
| Buildings | 99,612,408 | 289,333 | - | 99,901,741 |
| Building improvements | 44,400,610 | 32,848 | (20,000) | 44,413,458 |
| Ground improvements | 10,834,750 | 130,944 | - | 10,965,694 |
| Equipment | 11,634,597 | 557,155 | (1,050,318) | 11,141,434 |
| Buses and equipment | 2,594,701 | - | - | 2,594,701 |
| Vehicles | 349,447 | - | - | 349,447 |
| Other | 93,634 | - | - | 93,634 |
| Subtotal | <u>169,520,147</u> | <u>1,010,280</u> | <u>(1,070,318)</u> | <u>169,460,109</u> |
| Accumulated depreciation: | | | | |
| Buildings | 16,949,173 | 1,691,214 | - | 18,640,387 |
| Building improvements | 8,782,442 | 991,545 | (18,000) | 9,755,987 |
| Ground improvements | 3,418,820 | 611,733 | - | 4,030,553 |
| Equipment | 7,526,605 | 830,400 | (1,014,316) | 7,342,689 |
| Buses and equipment | 1,753,640 | 289,905 | - | 2,043,545 |
| Vehicles | 297,158 | 4,271 | - | 301,429 |
| Other | 42,721 | 3,730 | - | 46,451 |
| Subtotal | <u>38,770,559</u> | <u>4,422,798</u> | <u>(1,032,316)</u> | <u>42,161,041</u> |
| Net capital assets being depreciated | <u>130,749,588</u> | <u>(3,412,518)</u> | <u>(38,002)</u> | <u>127,299,068</u> |
| Net capital assets | <u>\$140,495,781</u> | <u>\$ 2,094,625</u> | <u>\$ (130,345)</u> | <u>\$142,460,061</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 5 - Capital Assets - Continued

Depreciation expense was charged to specific activities of the School District as follows:

Governmental activities:

| | |
|--------------------|----------------|
| Instruction | \$ 2,697,906 |
| Support services | 1,415,296 |
| Food services | 132,684 |
| Athletics | 44,228 |
| Community services | <u>132,684</u> |

| | |
|-------------------------------|---------------------|
| Total governmental activities | \$ <u>4,422,798</u> |
|-------------------------------|---------------------|

Construction Commitments

The School District has active construction projects in the Sinking Fund. At year end, the School District's commitments with contractors are as follows:

| | <u>Spent to Date</u> | <u>Remaining Commitment</u> |
|-----------------------------------|---------------------------------|--|
| Orchard Hills Construction | \$ 1,696,847 | \$ 4,327,597 |
| Village Oaks Construction | 1,615,840 | 4,232,151 |
| Parkview Construction | 1,847,305 | 4,531,959 |
| District-wide Technology/Security | <u>373,036</u> | <u>513,167</u> |
| Total | \$ <u>5,533,028</u> | \$ <u>13,604,874</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 6 - Interfund Receivables, Payables and Transfers

The composition of interfund balances is as follows:

| <u>Funds Due To</u> | <u>Funds Due From Nonmajor Governmental Funds</u> |
|-----------------------------|--|
| General Fund | \$ 60,592 |
| Nonmajor Governmental Funds | <u>7,330</u> |
| Total | <u>\$ 67,922</u> |
| | <u>Transfers - Out General Fund</u> |
| Transfers - in: | |
| Nonmajor Governmental Funds | <u>\$ (458,249)</u> |
| | <u>Transfers - Out Nonmajor Governmental Funds</u> |
| Transfers - in: | |
| General Fund | <u>\$ 170,000</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 7 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), which is a cost-sharing multiple employer, state-wide pension plan governed by the State of Michigan. The plan provides retirement, health and death and disability benefits. Public Act Number 136 of 1945, recodified and currently operating under the provisions of Public Act Number 300 of 1980, as amended assigns the authority to establish and amend the benefit provisions of the MPERS plan document. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement Services, Michigan Public School Employees' Retirement Systems, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

Funding Policy

The contribution requirements of the School District are established by the State of Michigan statutes and may be amended only by action of the State of Michigan Legislature. The School District is required to contribute at an actuarially determined rate. The required employer contribution rates for retirement benefits, including pension and health care benefits for the fiscal years ended September 30, 2008 and 2007 were 16.72% and 17.74%, respectively, of annual covered payroll. The actual contribution rates for pension benefits for the fiscal years ended September 30, 2008 and 2007 were 5.288% and 5.49%, respectively. The fiscal year 2007 annual covered payroll is not yet available.

The District is not responsible for the payment of retirement benefits; it is the responsibility of the State of Michigan.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to 10 percent of the monthly premium amount for the dental and vision coverages. Retirees who are not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS plan discussed above.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 8 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School District participates in the Middle Cities Risk Management Trust risk pool for claims relating to property liability, and errors and omissions; the School District is partially insured for medical benefits provided to the employees and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include installment loans, compensated absences, and severance benefits.

Long-term obligation activity can be summarized as follows:

| | <u>Balance July 1, 2007</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2008</u> | <u>Due Within One Year</u> |
|--------------------------------|---------------------------------|-------------------|---------------------|----------------------------------|--------------------------------|
| Governmental Activities | | | | | |
| Bonds | \$ 143,164,586 | \$ - | \$ 6,959,586 | \$ 136,205,000 | \$ 7,900,000 |
| Other obligations | <u>4,567,159</u> | <u>375,296</u> | <u>776,288</u> | <u>4,166,167</u> | <u>446,974</u> |
| Total governmental activities | <u>\$ 147,731,745</u> | <u>\$ 375,296</u> | <u>\$ 7,735,874</u> | <u>\$ 140,371,167</u> | <u>\$ 8,346,974</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 9 - Long-Term Debt - Continued

Total long-term debt at June 30, 2008, consists of the following:

Bonds Payable

| | |
|-----------------------------------|----------------------|
| 1993 bond issue - original amount | \$ 31,898,736 |
| Less: Bonds paid in prior years | 30,924,150 |
| Bonds paid May 1, 2008 | <u>974,586</u> |
| Bonds outstanding - June 30, 2008 | <u>\$ -</u> |
| 2001 bond issue - original amount | \$ 75,640,000 |
| Less: Bonds paid in prior years | 9,415,000 |
| Bonds paid May 1, 2008 | 3,300,000 |
| Bonds refinanced | <u>50,775,000</u> |
| Bonds outstanding - June 30, 2008 | <u>\$ 12,150,000</u> |

Bonds payable are as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|---------------------|----------------------|----------------------|
| 2009 | 4.125 | \$ 501,188 | \$ 3,875,000 | \$ 4,376,188 |
| 2010 | 4.125 | 341,344 | 4,050,000 | 4,391,344 |
| 2011 | 5.125 | <u>174,282</u> | <u>4,225,000</u> | <u>4,399,282</u> |
| | | <u>\$ 1,016,814</u> | <u>\$ 12,150,000</u> | <u>\$ 13,166,814</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

| | |
|-----------------------------------|-----------------------------|
| 2002 bond issue - original amount | \$ 28,460,000 |
| Less: Bonds paid in prior years | 4,375,000 |
| Bonds paid May 1, 2008 | <u>1,615,000</u> |
| Bonds outstanding - June 30, 2008 | <u><u>\$ 22,470,000</u></u> |

Bonds payable are as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|---------------------|----------------------|----------------------|
| 2009 | 3.000 | \$ 939,108 | \$ 1,850,000 | \$ 2,789,108 |
| 2010 | 3.150 | 883,608 | 1,815,000 | 2,698,608 |
| 2011 | 4.000 | 826,436 | 1,785,000 | 2,611,436 |
| 2012 | 3.350 | 755,036 | 1,770,000 | 2,525,036 |
| 2013 | 5.000 | 695,740 | 1,740,000 | 2,435,740 |
| 2014 | 3.700 | 608,740 | 1,740,000 | 2,348,740 |
| 2015 | 4.000 | 544,360 | 1,715,000 | 2,259,360 |
| 2016 | 4.000 | 475,760 | 1,700,000 | 2,175,760 |
| 2017 | 5.000 | 407,760 | 1,680,000 | 2,087,760 |
| 2018 | 5.000 | 323,760 | 1,675,000 | 1,998,760 |
| 2019 | 5.000 | 240,010 | 1,670,000 | 1,910,010 |
| 2020 | 5.000 | 156,510 | 1,665,000 | 1,821,510 |
| 2021 | 4.000 | <u>73,257</u> | <u>1,665,000</u> | <u>1,738,257</u> |
| | | <u>\$ 6,930,085</u> | <u>\$ 22,470,000</u> | <u>\$ 29,400,085</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

| | |
|-----------------------------------|----------------------|
| 2005 bond issue - original amount | \$ 11,920,000 |
| Less: Bonds paid in prior years | - |
| Bonds paid May 1, 2008 | <u>1,070,000</u> |
| Bonds outstanding - June 30, 2008 | <u>\$ 10,850,000</u> |

Bonds payable are as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|---------------------|----------------------|----------------------|
| 2009 | 3.000 | \$ 469,938 | \$ 1,075,000 | \$ 1,544,938 |
| 2010 | 3.500 | 437,688 | 1,075,000 | 1,512,688 |
| 2011 | 3.500 | 400,063 | 1,075,000 | 1,475,063 |
| 2012 | 3.875 | 362,438 | 1,075,000 | 1,437,438 |
| 2013 | 5.000 | 320,781 | 1,075,000 | 1,395,781 |
| 2014 | 4.375 | 267,031 | 1,075,000 | 1,342,031 |
| 2015 | 5.000 | 220,000 | 1,100,000 | 1,320,000 |
| 2016 | 5.000 | 165,000 | 1,100,000 | 1,265,000 |
| 2017 | 5.000 | 110,000 | 1,100,000 | 1,210,000 |
| 2018 | 5.000 | <u>54,998</u> | <u>1,100,000</u> | <u>1,154,998</u> |
| | | <u>\$ 2,807,937</u> | <u>\$ 10,850,000</u> | <u>\$ 13,657,937</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

| | |
|--|----------------------|
| 2007 Refinanced bond issue - original amount | \$ 64,360,000 |
| Less: Bonds paid in prior years | - |
| Bonds paid May 1, 2008 | <u>-</u> |
| Bonds outstanding - June 30, 2008 | <u>\$ 64,360,000</u> |

Bonds payable are as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|----------------------|----------------------|----------------------|
| 2009 | 4.000 | \$ 2,995,550 | \$ 875,000 | \$ 3,870,550 |
| 2010 | 4.000 | 2,960,550 | 1,300,000 | 4,260,550 |
| 2011 | 4.000 | 2,908,550 | 1,475,000 | 4,383,550 |
| 2012 | 4.000 | 2,849,550 | 5,845,000 | 8,694,550 |
| 2013 | 4.000 | 2,557,300 | 5,905,000 | 8,462,300 |
| 2014 | 4.000 | 2,262,050 | 5,970,000 | 8,232,050 |
| 2015 | 4.000 | 1,963,550 | 6,025,000 | 7,988,550 |
| 2016 | 4.000 | 1,662,300 | 6,075,000 | 7,737,300 |
| 2017 | 4.000 | 1,358,550 | 6,135,000 | 7,493,550 |
| 2018 | 4.000 | 1,051,800 | 6,160,000 | 7,211,800 |
| 2019 | 5.000 | 743,800 | 4,725,000 | 5,468,800 |
| 2020 | 4.250 | 554,800 | 4,670,000 | 5,224,800 |
| 2021 | 4.250 | 368,000 | 4,615,000 | 4,983,000 |
| 2022 | 5.000 | <u>183,400</u> | <u>4,585,000</u> | <u>4,768,400</u> |
| | | <u>\$ 24,419,750</u> | <u>\$ 64,360,000</u> | <u>\$ 88,779,750</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

Note 9 - Long-Term Debt - Continued

Bonds Payable - Continued

| | |
|-----------------------------------|-----------------------------|
| 2007 bond issue - original amount | \$ 26,375,000 |
| Less: Bonds paid in prior years | - |
| Bonds paid May 1, 2008 | <u>-</u> |
| Bonds outstanding - June 30, 2008 | <u><u>\$ 26,375,000</u></u> |

Bonds payable are as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|----------------------|----------------------|----------------------|
| 2009 | 4.000 | \$ 1,163,688 | \$ 225,000 | \$ 1,388,688 |
| 2010 | 4.000 | 1,154,688 | 500,000 | 1,654,688 |
| 2011 | 4.000 | 1,134,688 | 700,000 | 1,834,688 |
| 2012 | 4.000 | 1,106,688 | 925,000 | 2,031,688 |
| 2013 | 4.000 | 1,069,688 | 1,150,000 | 2,219,688 |
| 2014 | 4.000 | 1,023,688 | 1,200,000 | 2,223,688 |
| 2015 | 4.000 | 975,688 | 1,275,000 | 2,250,688 |
| 2016 | 4.000 | 924,688 | 1,325,000 | 2,249,688 |
| 2017 | 4.000 | 871,688 | 1,375,000 | 2,246,688 |
| 2018 | 4.000 | 816,688 | 1,425,000 | 2,241,688 |
| 2019 | 5.000 | 759,688 | 1,500,000 | 2,259,688 |
| 2020 | 4.250 | 684,688 | 1,575,000 | 2,259,688 |
| 2021 | 4.250 | 617,750 | 1,650,000 | 2,267,750 |
| 2022 | 5.000 | 547,626 | 1,775,000 | 2,322,626 |
| 2023 | 5.000 | 458,876 | 1,875,000 | 2,333,876 |
| 2024 | 5.000 | 365,126 | 1,925,000 | 2,290,126 |
| 2025 | 4.500 | 268,876 | 1,975,000 | 2,243,876 |
| 2026 | 4.500 | 180,000 | 2,000,000 | 2,180,000 |
| 2027 | 4.500 | <u>90,000</u> | <u>2,000,000</u> | <u>2,090,000</u> |
| | | <u>\$ 14,214,510</u> | <u>\$ 26,375,000</u> | <u>\$ 40,589,510</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 9 - Long-Term Debt - Continued

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

| <u>Year Ending June 30th:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--|-----------------------|----------------------|-----------------------|
| 2009 | \$ 7,900,000 | \$ 6,069,472 | \$ 13,969,472 |
| 2010 | 8,740,000 | 5,777,878 | 14,517,878 |
| 2011 | 9,260,000 | 5,444,019 | 14,704,019 |
| 2012 | 9,615,000 | 5,073,712 | 14,688,712 |
| 2013 | 9,870,000 | 4,643,509 | 14,513,509 |
| 2014 - 2018 | 50,950,000 | 16,088,099 | 67,038,099 |
| 2019 - 2023 | 31,970,000 | 5,388,405 | 37,358,405 |
| 2024 - 2028 | <u>7,900,000</u> | <u>904,002</u> | <u>8,804,002</u> |
| Total | <u>\$ 136,205,000</u> | <u>\$ 49,389,096</u> | <u>\$ 185,594,096</u> |

Capital Leases

The School District leases copy machines under separate capital lease arrangements in April and October 2003. The leases call for monthly payments of \$16,505 including interest through March 2008 and \$466 including interest through August 2008.

The minimum future lease payments under the capital lease obligations as of June 30, 2008 are as follows:

| <u>Year Ending June 30th:</u> | <u>Total</u> |
|--|---------------|
| 2009 | \$ 932 |
| Less portion representing interest | <u>8</u> |
| Present value of net minimum lease payments | <u>\$ 924</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 9 - Long-Term Debt - Continued

Capital Leases - Continued

The School District leases copy machines under a separate capital lease arrangement entered into during May 2008. The lease calls for monthly payments of \$7,182 including interest through June 2013.

The minimum future lease payments under the capital lease obligation as of June 30, 2008 are as follows:

| <u>Year Ending June 30th:</u> | <u>Total</u> |
|--|-------------------|
| 2009 | \$ 86,182 |
| 2010 | 86,183 |
| 2011 | 86,182 |
| 2012 | 86,183 |
| 2013 | <u>86,182</u> |
| Total minimum lease payments | 430,912 |
| Less portion representing interest | <u>60,713</u> |
| Present value of net minimum lease payments | <u>\$ 370,199</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 9 - Long-Term Debt - Continued

Capital Leases - Continued

The School District entered into a Lease Purchase Agreement for the purchase of four (4) school buses. The lease calls for annual payments ranging from \$52,120 to \$58,480, including interest, through 2011.

The minimum future lease payments under the capital lease obligations as of June 30, 2008 are as follows:

| <u>Year Ending June 30th:</u> | <u>Total</u> |
|---|---------------------|
| 2009 | \$ 56,360 |
| 2010 | 54,240 |
| 2011 | <u>52,120</u> |
| Total minimum lease payments | 162,720 |
| Less portion representing interest | <u>12,720</u> |
| Present value of net minimum lease payments | <u>\$ 150,000</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 9 - Long-Term Debt - Continued

Capital Leases - Continued

The School District entered into a Lease Purchase Agreement for the purchase of five (5) school buses. The lease calls for annual payments ranging from \$62,469 to \$70,428, including interest, through 2012.

The minimum future lease payments under the capital lease obligations as of June 30, 2008 are as follows:

| <u>Year Ending June 30th:</u> | <u>Total</u> |
|--|-------------------|
| 2009 | \$ 69,878 |
| 2010 | 67,408 |
| 2011 | 64,939 |
| 2012 | <u>62,469</u> |
| Total minimum lease payments | 264,694 |
| Less portion representing interest | <u>24,694</u> |
| Present value of net minimum lease payments | <u>\$ 240,000</u> |

Other Long-Term Obligations

Other long-term obligations consist of the following:

| | |
|--------------------------------|-------------------|
| Severance liability | \$ 45,000 |
| Compensated absences liability | <u>197,997</u> |
| Total | <u>\$ 242,997</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 10 - Capital Projects Funds

The 2001 Capital Projects Fund includes activities funded with bonds issued after May 1, 1994. The 2001 Sinking Fund includes capital project activities funded by a .5 millage rate. The 2007 Capital Projects Fund includes activities funded with bonds issued after June 28, 2007. The following is a summary of the revenues and expenditures in the 2001 Capital Projects Fund, the 2001 Sinking Fund, and the 2007 Capital Projects Fund from inception of the funds through the current fiscal year:

| | <u>2001 Sinking Fund</u> | <u>2001 Capital Projects Fund</u> | <u>2007 Capital Projects Fund</u> |
|--------------|----------------------------------|---|---|
| Revenues | \$ 6,959,144 | \$ 80,363,483 | \$ 27,960,844 |
| Expenditures | 5,771,867 | 80,363,483 | 5,779,967 |

For the 2001 and 2007 Capital Projects Funds and 2001 Sinking Fund, the School District has complied with the applicable provisions of Sections 1351(a) of the Revised School Code.

Note 11 - Contingent Liabilities

The School District participates in a number of federally assisted grant programs. These programs are subject to program compliance audits as described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*. The audits of these programs for and including the year ended June 30, 2008, have been conducted and reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the School District expects such amounts, if any, to be immaterial.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 12 - Governmental Regulation

Substantially all of the School District's facilities are subject to federal, state, and local provisions regulating the discharge of materials into the environment. Compliance with these provisions has not had, nor does the School District expect such compliance to have, any material effect upon the capital expenditures, net revenue in excess of expenditures, or financial condition of the School District. Management believes that its current practices and procedures for the control and disposition of such wastes comply with applicable federal, state, and local requirements.

Note 13 - Compensated Absences

Teachers are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 35 days at rates ranging from \$50 to \$70 per day. Eligible teachers must have ten or more years of service in the School District and have not used more than six paid (sick) leave allowance days during five of the ten years preceding the severance of employment. In addition, each eligible teacher must have accumulated at least 80 days in their sick leave allowance bank.

Secretaries are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 35 days at rates ranging from \$20 to \$40 per day. Eligible secretaries must have ten or more years of service in the School District and have not used more than six paid (sick) leave allowance days during five of the ten years preceding the severance of employment. In addition, each eligible secretary must have accumulated at least 130 days in their sick leave allowance bank.

Custodians are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse a maximum of 50 days at the custodian's daily rate. Eligible custodians must have ten or more years of service in the School District and have accumulated at least 50 days in their sick leave allowance bank.

Bus drivers are provided with 15 sick days per year. An unlimited number of days can be accumulated. Upon retirement, the School District will reimburse accumulated days exceeding 100 at the rate of 50% of the average daily rate of pay at the time of retirement. Eligible bus drivers must have ten or more years of service in the School District and have accumulated at least 100 days in their sick leave allowance bank.

REQUIRED SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over (Under) Final Budget</u> |
|--|----------------------------|-------------------------|----------------------|---|
| Revenues | | | | |
| Local sources | | | | |
| Taxes | \$ 25,981,738 | \$ 25,937,819 | \$ 25,582,880 | \$ (354,939) |
| Interest | 255,000 | 400,000 | 464,086 | 64,086 |
| Other sources | 2,578,808 | 2,384,797 | 2,465,105 | 80,308 |
| State sources - state school aid | | | | |
| Restricted | 3,041,805 | 3,337,934 | 3,337,479 | (455) |
| Unrestricted | 32,423,675 | 33,536,629 | 33,536,629 | - |
| Federal sources | | | | |
| Restricted grants | 1,210,886 | 1,298,569 | 1,230,887 | (67,682) |
| Payments from other schools and intermediate school districts | 4,937,939 | 5,421,626 | 5,205,487 | (216,139) |
| | <u>70,429,851</u> | <u>72,317,374</u> | <u>71,822,553</u> | <u>(494,821)</u> |
| Total revenues | 70,429,851 | 72,317,374 | 71,822,553 | (494,821) |
| Expenditures | | | | |
| Instructional | 43,975,115 | 43,285,101 | 43,078,587 | (206,514) |
| Supporting services | 23,750,163 | 24,644,377 | 23,286,467 | (1,357,910) |
| Community services | 2,232,970 | 2,325,562 | 2,065,802 | (259,760) |
| | <u>69,958,248</u> | <u>70,255,040</u> | <u>68,430,856</u> | <u>(1,824,184)</u> |
| Total expenditures | 69,958,248 | 70,255,040 | 68,430,856 | (1,824,184) |
| Other Financing Sources (Uses) | | | | |
| Operating transfers - in | 450,000 | 170,000 | 170,000 | - |
| Operating transfers - out | (527,609) | (515,317) | (458,249) | 57,068 |
| Principal and interest payments on loans | (167,735) | (167,575) | (167,575) | - |
| | <u>(245,344)</u> | <u>(512,892)</u> | <u>(455,824)</u> | <u>57,068</u> |
| Total other financing sources (uses) | (245,344) | (512,892) | (455,824) | 57,068 |
| Net Change in Fund Balance | 226,259 | 1,549,442 | 2,935,873 | (1,386,431) |
| Fund Balance - July 1, 2007 | 9,785,421 | 9,785,421 | 9,785,421 | - |
| Fund Balance - June 30, 2008 | <u>\$ 10,011,680</u> | <u>\$ 11,334,863</u> | <u>\$ 12,721,294</u> | <u>\$ (1,386,431)</u> |

OTHER SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

ASSETS

| | Special Revenue Funds | | Debt Service Funds | |
|---------------------------|------------------------------|--------------------------|---------------------------|---------------------------|
| | Cafeteria Fund | Athletic Fund | 1993 Debt Fund | 2001 Debt Fund |
| Cash and cash equivalents | \$ 639,574 | \$ - | \$ 73,844 | \$ 216,967 |
| Receivables | | | | |
| Accounts | 44,322 | - | 37 | 109 |
| Taxes | - | - | 7,910 | 15,180 |
| Due from other funds | - | 7,330 | - | - |
| Inventories | 34,078 | - | - | - |
| Prepaid expenses | 5,067 | - | - | - |
| Total assets | <u>\$ 723,041</u> | <u>\$ 7,330</u> | <u>\$ 81,791</u> | <u>\$ 232,256</u> |

LIABILITIES AND FUND BALANCES

| | | | | |
|-------------------------------------|-------------------|-----------------|------------------|-------------------|
| Salaries payable | \$ 12,416 | \$ - | \$ - | \$ - |
| Accounts payable | 10,993 | 7,330 | - | - |
| Deferred revenue | 56,552 | - | 7,910 | 15,180 |
| Due to other funds | 67,922 | - | - | - |
| Total liabilities | 147,883 | 7,330 | 7,910 | 15,180 |
| Fund balances | 575,158 | - | 73,881 | 217,076 |
| Total liabilities and fund balances | <u>\$ 723,041</u> | <u>\$ 7,330</u> | <u>\$ 81,791</u> | <u>\$ 232,256</u> |

| Debt Service Funds | | | | Capital Projects Funds | | Total |
|--------------------|-------------------|------------------------------|-------------------|-------------------------------|---------------------|---------------------|
| 2002 Debt Fund | 2005 Debt Fund | 2007 Refinanced Debt Fund | 2007 Debt Fund | 2001 Capital Projects Fund | Sinking Fund | |
| \$ 160,855 | \$ 102,973 | \$ 95,919 | \$ 26,194 | \$ - | \$ 1,190,245 | \$ 2,506,571 |
| 82 | 54 | 54 | 15 | - | - | 44,673 |
| 7,924 | 4,069 | 10,067 | 2,631 | - | 5,005 | 52,786 |
| - | - | - | - | - | - | 7,330 |
| - | - | - | - | - | - | 34,078 |
| - | - | - | - | - | - | 5,067 |
| <u>\$ 168,861</u> | <u>\$ 107,096</u> | <u>\$ 106,040</u> | <u>\$ 28,840</u> | <u>\$ -</u> | <u>\$ 1,195,250</u> | <u>\$ 2,650,505</u> |
| | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 12,416 |
| - | - | - | - | - | 2,969 | 21,292 |
| 7,924 | 4,070 | 10,067 | 2,631 | - | 5,005 | 109,339 |
| - | - | - | - | - | - | 67,922 |
| 7,924 | 4,070 | 10,067 | 2,631 | - | 7,974 | 210,969 |
| 160,937 | 103,026 | 95,973 | 26,209 | - | 1,187,276 | 2,439,536 |
| <u>\$ 168,861</u> | <u>\$ 107,096</u> | <u>\$ 106,040</u> | <u>\$ 28,840</u> | <u>\$ -</u> | <u>\$ 1,195,250</u> | <u>\$ 2,650,505</u> |

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

OTHER SUPPLEMENTAL INFORMATION COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

| | Special Revenue Funds | | Debt Service Funds | | |
|--|-----------------------|------------------|--------------------|-------------------|-------------------|
| | Cafeteria Fund | Athletic Fund | 1993 Debt Fund | 1997 Debt Fund | 1998 Debt Fund |
| Revenues | | | | | |
| Local sources | | | | | |
| Taxes | \$ - | \$ - | \$ 2,051,859 | \$ - | \$ - |
| Interest | 40,936 | - | 54,012 | - | - |
| Cafeteria sales | 2,208,218 | - | - | - | - |
| Other sources | - | 254,059 | - | - | - |
| State sources - state school aid | 82,423 | - | - | - | - |
| Federal sources | 219,158 | - | - | - | - |
| | | | | | |
| Total revenues | 2,550,735 | 254,059 | 2,105,871 | - | - |
| | | | | | |
| Expenditures | | | | | |
| Supporting services | 2,490,931 | 712,308 | - | - | - |
| Buildings and additions | - | - | - | - | - |
| Principal | - | - | 974,586 | - | - |
| Interest and fees | - | - | 1,515,414 | - | - |
| Other | - | - | 1,000 | - | - |
| | | | | | |
| Total expenditures | 2,490,931 | 712,308 | 2,491,000 | - | - |
| | | | | | |
| Excess of Revenues Over (Under) | | | | | |
| Expenditures | 59,804 | (458,249) | (385,129) | - | - |
| | | | | | |
| Other Financing Sources (Uses) | | | | | |
| Operating transfers - in/(out) | (170,000) | 458,249 | - | (28,923) | (338,680) |
| | | | | | |
| Net Change in Fund Balances | (110,196) | - | (385,129) | (28,923) | (338,680) |
| | | | | | |
| Fund Balances - July 1, 2007 | 685,354 | - | 459,010 | 28,923 | 338,680 |
| | | | | | |
| Fund Balances - June 30, 2008 | <u>\$ 575,158</u> | <u>\$ -</u> | <u>\$ 73,881</u> | <u>\$ -</u> | <u>\$ -</u> |

| Debt Service Funds | | | | | Capital Projects Funds | | Total |
|--------------------|-------------------|-------------------|------------------------------|-------------------|-------------------------------|-----------------|---------------|
| 2001 Debt Fund | 2002 Debt Fund | 2005 Debt Fund | 2007 Refinanced Debt Fund | 2007 Debt Fund | 2001 Capital Projects Fund | Sinking Fund | |
| \$ 3,784,009 | \$ 2,054,199 | \$ 935,146 | \$ 3,327,406 | \$ 999,645 | \$ - | \$ 1,160,643 | \$ 14,312,907 |
| 77,986 | 56,255 | 39,619 | 18,332 | 6,651 | 5,042 | 27,380 | 326,213 |
| - | - | - | - | - | - | - | 2,208,218 |
| - | - | - | - | - | - | - | 254,059 |
| - | - | - | - | - | - | - | 82,423 |
| - | - | - | - | - | - | - | 219,158 |
| 3,861,995 | 2,110,454 | 974,765 | 3,345,738 | 1,006,296 | 5,042 | 1,188,023 | 17,402,978 |
| - | - | - | - | - | - | - | 3,203,239 |
| - | - | - | - | - | 17,076 | 552,326 | 569,402 |
| 3,300,000 | 1,615,000 | 1,070,000 | - | - | - | - | 6,959,586 |
| 637,313 | 1,020,269 | 501,460 | 3,278,463 | 979,437 | - | - | 7,932,356 |
| 138 | - | 241 | 225 | 650 | - | - | 2,254 |
| 3,937,451 | 2,635,269 | 1,571,701 | 3,278,688 | 980,087 | 17,076 | 552,326 | 18,666,837 |
| (75,456) | (524,815) | (596,936) | 67,050 | 26,209 | (12,034) | 635,697 | (1,263,859) |
| - | - | 338,680 | 28,923 | - | - | - | 288,249 |
| (75,456) | (524,815) | (258,256) | 95,973 | 26,209 | (12,034) | 635,697 | (975,610) |
| 292,532 | 685,752 | 361,282 | - | - | 12,034 | 551,579 | 3,415,146 |
| \$ 217,076 | \$ 160,937 | \$ 103,026 | \$ 95,973 | \$ 26,209 | \$ - | \$ 1,187,276 | \$ 2,439,536 |

**ANALYSIS OF 2007 TAX LEVIES
AND
SUMMARY OF DELINQUENT TAXES**

BOARD OF EDUCATION NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN

ANALYSIS OF 2007 TAX LEVIES FOR THE YEAR ENDED JUNE 30, 2008

Tax Rates:

| | |
|--------------------------------|---------------|
| General Fund | |
| Homestead | |
| Hold Harmless | 2.8849 |
| Recreational | 0.9800 |
| Sinking Fund | 0.4932 |
| State Millage | <u>6.0000</u> |
| Total homestead | 10.3581 |
| Non-Homestead | |
| General Operating | 18.0000 |
| Recreational | 0.9800 |
| Sinking Fund | 0.4932 |
| State Millage | <u>6.0000</u> |
| Total non-homestead | 25.4732 |
| Debt Fund | |
| 1993 Debt | 0.9000 |
| 2001 Debt | 1.6200 |
| 2002 Debt | 0.8800 |
| 2005 Debt | 0.4000 |
| 2007 Refinanced Debt | 1.4300 |
| 2007 Debt | <u>0.4300</u> |
| Total debt fund | <u>5.6600</u> |
| Total tax rate - Homestead | 16.0181 |
| Total tax rate - Non-Homestead | 31.1332 |

Taxable Values:

| | |
|----------------------|-------------------------|
| City of Novi | \$ 2,370,231,250 |
| City of Wixom | <u>2,448,670</u> |
| Total taxable values | <u>\$ 2,372,679,920</u> |

| | <u>Operating</u> | <u>Sinking Fund</u> | <u>Debt</u> | <u>Total</u> |
|-------------------------|-------------------|---------------------|-------------------|-------------------|
| Taxes Levied | | | | |
| City of Novi | \$ 25,500,274 | \$ 1,160,138 | \$ 13,127,238 | \$ 39,787,650 |
| City of Wixom | <u>46,477</u> | <u>1,208</u> | <u>13,860</u> | <u>61,545</u> |
| Total taxes levied | 25,546,751 | 1,161,346 | 13,141,098 | 39,849,195 |
| Taxes Collected | | | | |
| City of Novi | 25,408,875 | 1,156,122 | 13,094,396 | 39,659,393 |
| City of Wixom | <u>46,344</u> | <u>1,204</u> | <u>13,820</u> | <u>61,368</u> |
| Total taxes collected | <u>25,455,219</u> | <u>1,157,326</u> | <u>13,108,216</u> | <u>39,720,761</u> |
| Delinquent Taxes | | | | |
| City of Novi | <u>\$ 91,399</u> | <u>\$ 4,016</u> | <u>\$ 32,842</u> | <u>\$ 128,257</u> |
| City of Wixom | <u>\$ 133</u> | <u>\$ 4</u> | <u>\$ 40</u> | <u>\$ 177</u> |

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SUMMARY OF DELINQUENT TAXES
FOR THE YEAR ENDED JUNE 30, 2008**

| | <u>General Fund</u> | <u>Sinking Fund</u> | <u>Debt Fund</u> | <u>Total</u> |
|--------------------------------|-------------------------|-------------------------|----------------------|-------------------|
| Balance - July 1, 2007 | \$ 160,526 | \$ 5,425 | \$ 74,445 | \$ 240,396 |
| Additions | | | | |
| 2007 delinquent taxes | 91,532 | 4,020 | 32,879 | 128,431 |
| Deductions | | | | |
| Delinquent tax collections | 127,661 | 3,317 | 44,048 | 175,026 |
| Prior year taxes written-off | <u>29,411</u> | <u>1,122</u> | <u>15,497</u> | <u>46,030</u> |
| Balance - June 30, 2008 | <u>\$ 94,986</u> | <u>\$ 5,006</u> | <u>\$ 47,779</u> | <u>\$ 147,771</u> |

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

**SINGLE AUDIT
REPORTING PACKAGE**

JUNE 30, 2008



To the Board of Education of the
Novi Community School District, Michigan

We have audited the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Novi Community School District, Michigan as of and for the year ended June 30, 2008, and have issued our report thereon dated November 11, 2008, which was unqualified. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the Novi Community School District, Michigan are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Novi Community School District, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

DOEREN MAYHEW

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Doeren Mayhew". The signature is written in a cursive, flowing style.

DOEREN MAYHEW

November 11, 2008
Troy, Michigan



To the Board of Education of the
Novi Community School District, Michigan

Compliance

We have audited the compliance of the Novi Community School District, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Novi Community School District, Michigan's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Novi Community School District, Michigan's management. Our responsibility is to express an opinion on the Novi Community School District, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Novi Community School District, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Novi Community School District, Michigan's compliance with those requirements.

In our opinion, the Novi Community School District, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Novi Community School District, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs.

In planning and performing our audit, we considered the Novi Community School District, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Novi Community School District, Michigan. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Novi Community School District, Michigan. The combining and individual non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specific parties.



DOEREN MAYHEW

November 11, 2008
Troy, Michigan

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

SECTION I

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027 and 84.173
84.365

Special Education Cluster
Title III Limited English Proficiency

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

SECTION II

FINDINGS - FINANCIAL STATEMENTS AUDIT

None noted.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

SECTION III

FINDINGS - FEDERAL AWARDS AUDIT

None noted.

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u> | <u>Federal CFDA Number</u> | <u>Program Award/ Amount</u> | <u>Accrued (Deferred) Revenue at 7/1/07</u> | <u>Prior Year Expenditures</u> | <u>Adjustments</u> | <u>Current Year Receipts</u> | <u>Revenue Recognized</u> | <u>Expenditures 7/1/07 - 6/30/08</u> | <u>Accrued (Deferred) Revenue at 6/30/08</u> |
|--|------------------------------------|--------------------------------------|---|--|--------------------|--------------------------------------|-------------------------------|--|--|
| <u>U.S. Department of Education - Passed Through Michigan Department of Education</u> | | | | | | | | | |
| <u>Title V, Part A - Innovative Education Program Strategies</u> | | | | | | | | | |
| 080250-0708 Regular | 84.298 | \$ 1,285 | \$ - | \$ - | \$ - | \$ 323 | \$ 1,222 | \$ 1,222 | \$ 899 |
| Total Title V, Part A - Innovative Education Program Strategies | | 1,285 | - | - | - | 323 | 1,222 | 1,222 | 899 |
| <u>Title II, Part A - Teacher/Principal Training and Recruiting</u> | | | | | | | | | |
| 070520-0607 Regular | 84.367 | 125,430 | 40,357 | 87,374 | - | 61,516 | 21,159 | 21,159 | - |
| 080520-0708 Regular | 84.367 | 144,250 | - | - | - | 76,289 | 93,423 | 93,423 | 17,134 |
| Total Title II, Part A - Teacher/Principal Training and Recruiting | | 269,680 | 40,357 | 87,374 | - | 137,805 | 114,582 | 114,582 | 17,134 |
| <u>Title III - Limited English Proficiency</u> | | | | | | | | | |
| 060580-0506 Carryover | 84.365A | 60,309 | 60,309 | 60,309 | - | 60,309 | - | - | - |
| 070580-0607 Regular | 84.365A | 99,116 | 16,028 | 16,028 | - | 55,761 | 39,733 | 39,733 | - |
| 080580-0708 Regular | 84.365A | 77,240 | - | - | - | 70,399 | 72,538 | 72,538 | 2,139 |
| Total Title III - Limited English Proficiency | | 236,665 | 76,337 | 76,337 | - | 186,469 | 112,271 | 112,271 | 2,139 |

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u> | <u>Federal CFDA Number</u> | <u>Program Award/ Amount</u> | <u>Accrued (Deferred) Revenue at 7/1/07</u> | <u>Prior Year Expenditures</u> | <u>Adjustments</u> | <u>Current Year Receipts</u> | <u>Revenue Recognized</u> | <u>Expenditures 7/1/07 - 6/30/08</u> | <u>Accrued (Deferred) Revenue at 6/30/08</u> |
|--|------------------------------------|--------------------------------------|---|--|--------------------|--------------------------------------|-------------------------------|--|--|
| <u>U.S. Department of Education - Passed Through Michigan Department of Education - Continued</u> | | | | | | | | | |
| <u>Federal Drug-Free Schools and Communities</u> | | | | | | | | | |
| 082860-0708 Regular | 84.186 | \$ 15,266 | \$ - | \$ - | \$ - | \$ 3,648 | \$ 3,648 | \$ 3,648 | \$ - |
| Total Federal Drug-Free Schools and Communities | | 15,266 | - | - | - | 3,648 | 3,648 | 3,648 | - |
| <u>Title II - Adult Education and Literacy</u> | | | | | | | | | |
| 071130-710606 | 84.002A | 47,300 | 11,902 | 39,250 | - | 11,902 | - | - | - |
| 081130-810607 | 84.002A | 57,300 | - | - | - | 49,505 | 57,300 | 57,300 | 7,795 |
| Total Title II - Adult Education and Literacy | | 104,600 | 11,902 | 39,250 | - | 61,407 | 57,300 | 57,300 | 7,795 |
| <u>English Literacy and Civics Education</u> | | | | | | | | | |
| 061120-6500625 | 84.002A | 10,000 | 2,717 | 9,221 | - | 2,717 | - | - | - |
| 071120-7500626 | 84.002A | 17,200 | 312 | 16,382 | - | 312 | - | - | - |
| 081120-8500627 | 84.002A | 17,200 | - | - | - | 17,200 | 17,200 | 17,200 | - |
| Total English Literacy and Civics Education | | 44,400 | 3,029 | 25,603 | - | 20,229 | 17,200 | 17,200 | - |

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u> | <u>Federal CFDA Number</u> | <u>Program Award/ Amount</u> | <u>Accrued (Deferred) Revenue at 7/1/07</u> | <u>Prior Year Expenditures</u> | <u>Adjustments</u> | <u>Current Year Receipts</u> | <u>Revenue Recognized</u> | <u>Expenditures 7/1/07 - 6/30/08</u> | <u>Accrued (Deferred) Revenue at 6/30/08</u> |
|---|------------------------------------|--------------------------------------|---|--|--------------------|--------------------------------------|-------------------------------|--|--|
| <u>U.S. Department of Education - Passed Through Michigan Department of Education - Continued</u> | | | | | | | | | |
| <u>Service Provider Self Review</u> | | | | | | | | | |
| 070440-0607 | 84.027A | \$ 5,000 | \$ 4,837 | \$ 4,837 | \$ - | \$ 4,837 | \$ - | \$ - | \$ - |
| Total Service Provider Self Review | | 5,000 | 4,837 | 4,837 | - | 4,837 | - | - | - |
| Total U.S. Department of Education - Passed Through Michigan Department of Education | | 676,896 | 136,462 | 233,401 | - | 414,718 | 306,223 | 306,223 | 27,967 |
| <u>U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District</u> | | | | | | | | | |
| <u>Federal Assistance for the Education of Handicapped Persons - Special Education</u> | | | | | | | | | |
| 070450 Flowthrough | 84.027 | 913,584 | 370,117 | 913,584 | - | 370,117 | - | - | - |
| 070460 Preschool | 84.173 | 30,791 | 1,351 | 30,791 | - | 1,351 | - | - | - |
| 080450 Flowthrough | 84.027 | 856,447 | - | - | - | 856,447 | 856,447 | 856,447 | - |
| 080460 Preschool | 84.173 | 31,547 | - | - | - | 31,547 | 31,547 | 31,547 | - |
| Total Federal Assistance for the Education of Handicapped Persons - Special Education | | 1,832,369 | 371,468 | 944,375 | - | 1,259,462 | 887,994 | 887,994 | - |

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u> | <u>Federal CFDA Number</u> | <u>Program Award/ Amount</u> | <u>Accrued (Deferred) Revenue at 7/1/07</u> | <u>Prior Year Expenditures</u> | <u>Adjustments</u> | <u>Current Year Receipts</u> | <u>Revenue Recognized</u> | <u>Expenditures 7/1/07 - 6/30/08</u> | <u>Accrued (Deferred) Revenue at 6/30/08</u> |
|--|------------------------------------|--------------------------------------|---|--|--------------------|--------------------------------------|-------------------------------|--|--|
| <u>U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District - Continued</u> | | | | | | | | | |
| <u>Vocational Education - Basic Grants to States (Perkins III)</u> | | | | | | | | | |
| 073520-701218 Regular | 84.048 | \$ 30,872 | \$ 4,373 | \$ 27,634 | \$ - | \$ 4,373 | \$ - | \$ - | \$ - |
| 083520-801218 Regular | 84.048 | <u>36,642</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,515</u> | <u>35,926</u> | <u>35,926</u> | <u>25,411</u> |
| Total Vocational Education - Basic Grants to States (Perkins III) | | 67,514 | 4,373 | 27,634 | - | 14,888 | 35,926 | 35,926 | 25,411 |
| Total U.S. Department of Education - Passed Through Michigan Department of Education - Passed Through Oakland County Intermediate School District | | <u>1,899,883</u> | <u>375,841</u> | <u>972,009</u> | <u>-</u> | <u>1,274,350</u> | <u>923,920</u> | <u>923,920</u> | <u>25,411</u> |
| Total U.S. Department of Education | | 2,576,779 | 512,303 | 1,205,410 | - | 1,689,068 | 1,230,143 | 1,230,143 | 53,378 |

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

| <u>Federal Grantor/ Pass-Through Grantor Program Title/Grantor's Number</u> | <u>Federal CFDA Number</u> | <u>Program Award/ Amount</u> | <u>Accrued (Deferred) Revenue at 7/1/07</u> | <u>Prior Year Expenditures</u> | <u>Adjustments</u> | <u>Current Year Receipts</u> | <u>Revenue Recognized</u> | <u>Expenditures 7/1/07 - 6/30/08</u> | <u>Accrued (Deferred) Revenue at 6/30/08</u> |
|---|------------------------------------|--------------------------------------|---|--|--------------------|--------------------------------------|-------------------------------|--|--|
| <u>U.S. Department of Health and Human Services - Passed Through Michigan Department of Community Health</u> | | | | | | | | | |
| <u>Medicare Catastrophic Coverage Act</u> | | | | | | | | | |
| 0607 Transportation | 93.778 | \$ 2,080 | \$ 1,128 | \$ 2,081 | \$ - | \$ 1,128 | \$ - | \$ - | \$ - |
| 0708 Transportation | 93.778 | <u>744</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>744</u> | <u>744</u> | <u>744</u> | <u>-</u> |
| Total U.S. Department of Health and Human Services - Passed Through Michigan Department of Community Health | | 2,824 | 1,128 | 2,081 | - | 1,872 | 744 | 744 | - |
| <u>U.S. Department of Agriculture - Passed Through Michigan Department of Education</u> | | | | | | | | | |
| National School Breakfast Program 06-07 | 10.553 | 3,313 | 675 | 3,313 | - | 675 | - | - | - |
| National School Lunch Program 06-07 | 10.555 | 138,001 | 25,896 | 138,001 | - | 25,896 | - | - | - |
| National School Breakfast Program 07-08 | 10.553 | 4,552 | - | - | - | 3,595 | 4,552 | 4,552 | 957 |
| National School Lunch Program 07-08 | 10.555 | 165,014 | - | - | - | 137,798 | 165,014 | 165,014 | 27,216 |
| Donated Food Commodities - Entitlement | 10.550 | <u>76,192</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>49,592</u> | <u>49,592</u> | <u>49,592</u> | <u>-</u> |
| Total U.S. Department of Agriculture - Passed Through Michigan Department of Education | | <u>387,072</u> | <u>26,571</u> | <u>141,314</u> | <u>-</u> | <u>217,556</u> | <u>219,158</u> | <u>219,158</u> | <u>28,173</u> |
| Total all programs | | <u>\$ 2,966,675</u> | <u>\$ 540,002</u> | <u>\$ 1,348,805</u> | <u>\$ -</u> | <u>\$ 1,908,496</u> | <u>\$ 1,450,045</u> | <u>\$ 1,450,045</u> | <u>\$ 81,551</u> |

See Notes to the Schedule of Expenditures of Federal Awards

**BOARD OF EDUCATION
NOVI COMMUNITY SCHOOL DISTRICT, MICHIGAN**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost-reimbursement contracts of the Novi Community School District, Michigan. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual cost reports. Novi Community School District, Michigan receives federal awards indirectly through pass-through entities.

Except for the current year receipts column, which is presented on the cash basis of accounting, federal program expenditures included in the accompanying schedule are presented on the modified accrual basis of accounting. The modified accrual basis of accounting is also used for the general purpose financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any, is included in expenditures.

Note 2 - Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Note 3 - Grant Section Auditor's Reports

Management has utilized the Grant Section Auditor's Reports in preparing the Schedule of Expenditures of Federal Awards. The amounts on the Grant Section Auditor's Reports are included on the Schedule of Expenditures of Federal Awards.

**NOVI COMMUNITY SCHOOL
DISTRICT, MICHIGAN**

**COMMENT AND RECOMMENDATION
MEMORANDUM**

JUNE 30, 2008



November 11, 2008

Members of the Board of Education of the
Novi Community School District, Michigan
25345 Taft Road
Novi, Michigan 48374

Dear Board Members:

We have recently completed an audit of the financial statements of the Novi Community School District, Michigan for the year ended June 30, 2008. Our audit was made primarily for the purpose of expressing our opinion on these statements and, accordingly, did not encompass a detailed review of systems, procedures and internal controls.

We would like to compliment the business office for the excellent job that they have done this past year. We completed the audit with a minimum of adjustments and enjoyed working with your highly professional staff. However, during our audit, we observed certain areas where we believe improvements can be effected, and we offer the enclosed comment and recommendation memorandum for your review.

The accompanying memorandum is not based upon a complete survey of all phases of operating and executive controls; it does, however, direct attention to certain areas which we believe to be especially worthy of the Board's consideration. We appreciate that the ultimate objective of the Board of Education is to achieve maximum control at a minimum cost. We believe that consideration of the recommendation enumerated in this memorandum is compatible with that objective.

After you have reviewed our recommendation, we will be pleased to discuss the contents with you and to assist in the implementation or correction of any items set forth herein.

DOEREN MAYHEW

CURRENT YEAR COMMENT AND RECOMMENDATION

Information Technology

Comment:

In connection with our audit of the financial statements, various general and specific information technology controls and processes are reviewed. As a result, although no errors or adjustments were noted, we discussed with management various areas where changes could be made to improve segregation of duties, automated processes, monitoring of data and changes to information and backup procedures.

Recommendation:

We recommend management continue to determine appropriate modifications and requisite steps and timelines to implement any changes in the controls and processes.